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October 29, 2002

BY ELECTRONIC FILING

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

Re: Ex-Parte in CC Docket Nos: 96-45; 00-256; 90-571; 92-237; 95-116;
98-170; 98-171; 98-77; 98-166

Dear Ms. Dortch:

On Wednesday, October 23, 2002 John Jones of CenturyTel, Inc., and I had an *ex parte* meeting with Carol Matthey, Jessica Rosenworcel, Diane Law Hsu, Anita Cheng, and Paul Garnett of the Wireline Competition Bureau. The topics of these discussions were:

- CenturyTel's need to be able to attract capital for investment; and the importance of elimination of the price cap "All or Nothing" rules as proposed in the *MAG Further NPRM* to enable rate-of-return carriers to develop and sustain longer term capital plans and achieve long-term stability.
- How high-cost support, which is critical to rural carriers such as CenturyTel for attracting capital and promoting infrastructure investment, has been significantly reduced by the cap on the high-cost fund.
- How "Safety Valve" support being unavailable in the first year following an acquisition inhibits CenturyTel from rehabilitating exchanges; and the need for action on the pending reconsideration petition concerning the *RTF Order*.
- The various pending petitions seeking FCC guidance on state certification of CETCs who do not provide services comparable to those provided by ILECs.
- The potential impact on rural customers of changes to the contribution methodology for federal universal service programs; and the need to broaden the base of contributors to ensure stability in the fund and promote an equitable distribution of the high-cost funding mechanism.

LATHAM & WATKINS

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The enclosed materials summarize the points made in the meeting. The color graphics were distributed in the meeting. Please direct any questions concerning these matters to me.

Very truly yours,

A handwritten signature in black ink, appearing to be 'KB', followed by a long horizontal line extending to the right.

Karen Brinkmann

Enclosure

cc: Carol Matthey
Jessica Rosenworcel
Diane Law Hsu
Anita Cheng
Paul Garnett



CENTURYTEL BACKGROUND

- ◆ 8th largest telephone company in U.S. – 2.4 million telephone access lines
- ◆ Publicly traded on NYSE: CTL
- ◆ Full service telecommunications provider in rural markets
- ◆ History of growth through acquisition
- ◆ Rate of Return regulated for most properties (approximately 70% - at Federal Level)
- ◆ Leading purchaser of RBOC access lines – 1.2 million purchased over past five years
- ◆ 640,000 lines under CALLS for newly acquired lines in AL and MO

OPERATING PHILOSOPHY

- ◆ Lead the industry as a provider of integrated communication services in rural America -- Dedicated to rural and small urban markets
- ◆ Pursuing one of the most aggressive broadband deployments in the industry
- ◆ Continuing to grow through acquisitions of rural exchanges
- ◆ Present regulations threaten to hinder our ability to invest in new and existing markets

KEY ISSUES FOR CENTURYTEL

- ◆ Universal Service
 - ◆ High-Cost Fund Cap
 - ◆ Safety Valve Support
 - ◆ ETC Eligibility for High-Cost Support
 - ◆ Contribution Methodology
- ◆ Removal of All or Nothing Rule

HIGH-COST FUND CAP

- ◆ Cap is significantly reducing high-cost support received in rural markets because loop costs are rising faster than the cap
- ◆ Rural LECs *whose costs remain the same* are seeing diminishing per-line support, from one year to the next, due to the operation of the cap
- ◆ Added pressure on the fund results when CenturyTel buys rural high-cost lines from a non-rural carrier (that support is not transferred to rural HCF)
- ◆ Cap threatens stability, continued maintenance of service in rural America

UNIVERSAL SERVICE AND SAFETY VALVE SUPPORT

- ◆ Many rural RBOC customers need improved services, which require substantial capital investment
- ◆ Safety Valve support does not scratch the surface of what is needed for lines acquired from RBOCs
- ◆ Rural RBOC customers anticipate improved services from buyers on day one -- Present rules delay funding for needed investment for more than a year

ETC ELIGIBILITY RULES

- ◆ The high-cost support given to many CETCs is not being used as it was intended – to provide “universal service” in high-cost areas
- ◆ Too many loopholes in today’s rules that threaten universal service and highest cost customers -- a double standard has emerged
- ◆ States are applying the rules to speed competition but are not considering full public interest requirements in rural markets – long-term costs may outweigh benefits of this kind of leveraged competition
- ◆ CETCs are gaining huge windfalls at ILEC and customer expense
- ◆ Overall impact through this year is expected to result in \$2 billion increase in fund due to wireless entry
- ◆ Pending petitions (ACS, COPUC, NTCA) on these issues need to be acted upon, and the Commission must take up consideration of rule changes

CONTRIBUTION METHODOLOGY

- ◆ All carriers should participate
- ◆ Broadband providers should get comparable treatment
- ◆ Wireless carriers should contribute based on their actual interstate usage
- ◆ Avoid another end-user charge increase -- SLCs adversely impact rural customers due to greater price sensitivity, below average *per capita* income

ALL OR NOTHING RULE

- ◆ Present environment hinders our ability to attract capital for investment. (i.e. RBOC acquisitions)
- ◆ CenturyTel needs options to position itself to respond to competition
- ◆ All-or-Nothing rules need to be changed for both acquired lines and legacy properties to encourage rural investment
- ◆ Removal of this rule will provide much-needed stability
- ◆ All-or-Nothing needs to be resolved this year



CLOSING POINTS

- ◆ CenturyTel needs to be able to attract capital for investment – to develop and sustain longer term capital plans
- ◆ Long-term stability is needed for the rural segment of the industry
- ◆ Universal service is a critical part of that stability
- ◆ Companies like CenturyTel are the best hope for rural consumers
- ◆ The FCC should move quickly to:
 - ◆ Reexamine the High-Cost Fund Cap
 - ◆ Revise the Safety Valve Support Mechanism
 - ◆ Review ETC Eligibility
 - ◆ Broaden Universal Service Contributions Base
 - ◆ Eliminate the All-or-Nothing Rules